STATE OF CALIFORNIA *Philip Angelides, Treasurer*

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CAL-BUILD: Smart Pension Investments for California’s Infrastructure

By investing $15 billion in urban, smart growth infrastructure projects, California’s pension funds can build the economy, create jobs and earn solid returns for pensioners and taxpayers.

To meet California’s substantial need for smart and environmentally sustainable investments in infrastructure, the State must look to innovative funding approaches beyond general obligation bonds and other traditional government financing mechanisms. In this vein, California State Treasurer Phil Angelides proposes that California’s pension funds – the California Public Employees’ Retirement System (CalPERS) and the California State Teachers’ Retirement System (CalSTRS) – invest $15 billion in urban, smart growth infrastructure projects in California: to finance the projects that California needs, to create jobs, and to earn a return for the pension funds and taxpayers. The Treasurer’s *Cal-Build* initiative would provide a new source of capital for state and local infrastructure projects, supplementing the financing available from tax-exempt municipal bonds. And it would create a secure new investment for the pension funds to help them meet their need for solid, long-term financial returns.

Around the country and the world, private investors are looking to build or invest in infrastructure projects. These infrastructure investment opportunities should not belong to private companies alone. Treasurer Angelides’ *Cal-Build* proposal – the first of its kind in the nation – would give California’s pension systems the opportunity to invest in needed projects that have the potential to yield positive financial returns.

Under the Treasurer’s proposal, (CalPERS) and (CalSTRS) would invest $15 billion – about 5 percent of their holdings – in California infrastructure projects that will yield revenues and can provide a secure return to the funds. Potential investments would include smart, environmentally sound water-supply and conservation projects, toll bridges and tunnels, energy transmission projects, energy conservation efforts in public buildings, and dedicated transportation facilities to move cargo from ports – all projects that would generate income from sources such as user fees. *Cal-Build* would benefit pension fund members and taxpayers while keeping the profits from California infrastructure projects in California for the benefit of Californians.

Cal-Build is an extension of Treasurer Angelides’ groundbreaking *Double Bottom Line: Investing in California’s Emerging Markets* initiative. Launched in 2000, the *Double Bottom Line* has directed more than $14 billion in investment capital from the state’s pension and investment funds to spur economic progress in California’s inner cities and underserved communities. Under his initiative, the Treasurer’s Office and the state’s pension funds have made new capital available for home mortgages, urban housing and mixed-use development, and business expansion – meeting the “double bottom line” goals of solid returns for the State’s pension and investment funds *and* broadened opportunity in California communities. Just one example of the success of the *Double Bottom Line* strategy is CalPERS’ California Urban Real Estate investment initiative. Under that initiative, CalPERS has committed $3.4 billion, earning annual returns of 22 percent since the program’s inception in 2001.

A recent New York Times article (“Turning Asphalt into Gold,” January 20, 2006) highlights the “emerging trend” of private – mostly foreign – investors seeking to finance transportation and other infrastructure projects for profit. In fact, California’s pension funds may better meet California’s needs for investor financing of infrastructure because the funds aim for consistent, long-term returns rather than short-term profits and because the profits would accrue to California, not foreign firms.

CalPERS and CalSTRS are already widely invested in stocks, bonds, real estate, and private equity. Infrastructure investments would provide the funds with another investment option to diversify their portfolios, offering a steady projected return of 6-8 percent. With their track records of successfully managing already extensive and complex portfolios, CalPERS and CalSTRS have the investment expertise and resources to effectively implement the *Cal-Build* initiative.

While infrastructure in the United States has traditionally been provided by government entities, there has been a growing interest, given government budget constraints, in attracting investor capital. The *Cal-Build* concept builds on this interest and has already proven itself in Europe and abroad, where public works project funding for facilities like toll roads is dominated by private enterprise. Public pension funds outside the U.S. have also invested directly both in specific projects and in investment funds that finance transportation assets, and they have purchased debt or equity securities of private operators.

One notable example is the Ontario Municipal Employees Retirement System (OMERS). The Canadian pension fund has established a successful infrastructure investment program, directing 15 percent of its $40 billion in assets into toll roads, bridges, tunnels and other transportation assets; schools, courthouses, and other public buildings; and energy generation and transmission systems. OMERS expects a sound return of 10 to 15 percent on these investments over the long term. Like the Canadian OMERS fund, a number of pension funds in Europe have invested directly in specific projects and infrastructure funds.